

University Licensing and Spin-Outs

September 6, 2007

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Agenda

- Pathways for commercialization
- Why University licenses/spinouts are different?
- Exclusive Licenses
- Trends



Pathways for commercialization

- Sponsored Research
 - Industry funds development in exchange for (i) a license, (ii) an option for a license, or (iii) a right to negotiate a license
- Startup / Spinout
 - Exclusive license to newly formed entity with independent financing and researcher/faculty involvement
 - With or *without* equity
- Non-exclusive licenses
 - For technologies not requiring significant investment (e.g., research tools, manufacturing methods)
- Exclusive licenses
 - For technologies requiring significant investment



Why University licensing is different?

- Goals of University
 - Education, public interest, faculty incentives, return
- Various constituencies
 - Licensing office, faculty/students, agencies, academic
- Regulations/Funding Agency Requirements
 - Bayh-Dole
 - march-in rights, U.S. manufacture
 - publication, retained rights
- Risk Allocation
 - Insurance, indemnity, warranties
- Early stage/cutting edge technologies



Why University spin-outs are different? ... conflicts of interest

- IP Rights
 - University owns if generated with University resources, funds, facilities, etc.
 - UC Policy: Faculty/researcher duty to disclose inventions
 - Approval procedural for consulting/SABs
- Conflicts of interest
 - Financial interests in research
 - Consulting days/privilege
- Equity
 - Anti-dilution
 - Typical percentages



Exclusive licenses: Scope

- Subject Matter
 - Patents, materials, know-how, software
- Patents
 - *Typical*: Existing patent family, not new matter in CIPs
 - *Sometimes*: Dominated improvements, same inventors
 - *Never*: general improvements by University
- Exclusivity
 - “Just those rights necessary to encourage development”
 - *Limitations*: field, term, territory, co-exclusive



Financial Return to University

- Equity
- Net Sales
 - Patent applications
 - Stacking
 - Combination Products
- Sublicense Income (see below)
- Upfront
- Milestones
- Maintenance Fee and/or Minimum Annual Royalty
- Patents Costs



Exclusive licenses: Sublicense Income

- Pass-Through Royalty
 - Licensee pays University fixed percentage of sublicensee net sales
- Sublicense Income:
 - Percentage of income received for grant of sublicense
 - *Tip 1:* exclude... R&D payments, equity (not premium), patent reimbursements, other R&D materials/equipment
 - *Tip 2:* exclude... FMV of cross-licenses from “non-cash consideration”



Exclusive License: Sublicense Issues

- Flow-through provisions
 - Licensee duty to ensure compliance
 - ✓ royalties and reporting
 - Licensee duty to notify and cure, enforce or terminate
- Upon termination of license:
 - Sublicensee becomes direct licensee:
 - ✓ on terms of sublicense
 - ✓ on terms of license
 - Sublicense terminates; right to negotiate



Exclusive License: Diligence

- Diligence
 - Duty to develop and commercialize
 - Objective performance milestones
- University Remedies
 - Conversion to non-exclusive
 - Termination
- Mandatory sublicensing / march-in
 - “third party proposed products” provision



Exclusive License: Patent Prosecution

- Default positions:
 - UC: University controls
 - Stanford: Licensee controls
- *In all cases, exclusive licensee reimburses costs*
- Termination of rights by country
- Termination of rights by patent



Exclusive License: Patent Enforcement

- Stanford:
 - *Default*: Stanford first right, then Licensee step-in
 - *Recoveries*: If licensee sues, costs first, then balance is treated as net sales/sublicense income
- UC:
 - *Default*: Joint notice, then UC first right, Licensee step-in
 - *Recoveries*: To party bringing the suit
- If Licensee has first right, only in exclusive field/territory
- Right to name University as a party for standing
- No settlement without University consent



Other tips for licensees

- Consider making terms of agreement confidential, but allow licensee to disclose terms in connection with sublicenses, investments, M&A, IPO or to affiliates, advisors or as required by law
- Seek right to assign license in connection with a change of control
- Consider enabling Affiliates to practice under license



Recent Developments: How are Universities dealing with...

- Nine Points
- *MedImmune v. Genentech*
- *Sandisk v. STMicroelectronics*
- Bayh-Dole Hearings
- Patent Reform